TO PURCHASE OR REFINANCE - GET WITH OUR MORTGAGE EXPERTS

Has the real estate market hit its lowest point or are the values going to continue to plummet? Is this the best time to buy or is this the best time to refinance your home? Like many home-owners and investors, a lot of these questions may be going through your mind. The plethora of information on the internet doesn't help to consolidate the information the way you would like and talking to people gets you neither here nor there.

We took it upon ourselves to get to the bottom of what you should do. Here is the advice of some of the leading mortgage brokers in our area. Remember, you found this information in CityMasala!

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What is the impact on mortgage rates from the recent interest rate cuts and if the Fed is lowering the interest rate, why have the mortgage rates not dropped accordingly?

A: The impact on mortgage rates, from the recent interest rate cuts, varies. If a person is looking for a HELOC (a Home Equity Line Of Credit), it has helped them. Most HELOC prices are based on the Prime Rate. As that rate drops, their month to month interest rate drops.

As for conventional mortgages, the rates have also dropped. As a matter of fact, a few weeks ago, they were the lowest they have been in quite a few years. However, it is becoming more and more difficult to qualify borrowers. Due to the problems with the sub-prime market, a person with very good credit is still having a tough time getting a loan. This is because most lenders have not only tightened their guidelines tremendously, they have also eliminated a lot of programs. Today, no matter what your credit score is, most lenders will not finance more than 90% for a purchase. That changes to 80% for a rate and term refinance. For a cash out refinance, a lot of lenders have gone all the way down to only 70%. Therefore, unless you have a 700 plus credit score, it will be difficult to get a loan for the amount that you may need and it will also affect the rate you will qualify for.

Is this the right time to refinance or buy a home – especially with the real estate market having hit one of its lowest of all lows in over a decade?

A: In my opinion, this is a very good time to purchase a home. The prices of homes have dropped dramatically and I believe that there are many deals to be had. The danger in that is that many potential buyers feel that this gives them the right to severely undercut sellers. Sellers are willing to lose a little, but, they cannot afford to lose a lot. There needs to be some kind of middle ground that needs to be established.

What are the options all consumers must consider before refinancing or taking on a new mortgage? What are some of the most popular types of loans available and is it worth paying the closing cost to knock off a point or so on your mortgage?

A: For borrowers looking to refinance, they must face reality in terms of what the value of their home is in this market. Rapid appreciation doesn't exist right now, however, if you have had your home for quite a few years (5 or more), there will be some appreciation. If your interest rate is 7% or higher, and you plan on living in your home for at least 3 to 5 more years, then it would make sense to refinance to a lower rate. The length of time that you keep your home will more than pay for the closing cost associated with the refinance.

If a person is looking to purchase a home, they will get a good deal on homes today. Do not lose an opportunity because you think that you could get a better deal.

You must also understand what type of loan program you are getting into. The safest will always be a long term fixed (30 years). If you have good credit, you can get a long term fixed rate that will be in the low 6s and possible high 5s. That is the most popular and safest program.

Option ARM products are available. These are the products that got many borrowers into trouble and led to the state of Florida being number one in foreclosures in the United States. Most mortgage brokers and lenders were not educating their borrowers on how the Option ARM products worked. This, along with the drop in property appreciation, led to many people losing their homes. If a person decides to go with an Option ARM product, they may get a better rate/payment. The borrower needs to understand exactly how the ARM is going to change and when it is going to change, in order to make an educated decision on whether or not it is good for them.

In this current home market, it is very important for all borrowers to understand and become educated about the loan process.

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What is the impact on mortgage rates from the recent interest rate cuts?

A: The Fed has lowered short-term interest rates this year but longer-term bond yields have risen. These long-term rates helped fuel the homebuilding boom and the credit market's appetite for securities backed by increasingly riskier mortgage loans, and it arguably put the economy into the trouble the Fed finds itself dealing with today.

If the Fed is lowering the interest rate, why have the mortgage rates not dropped accordingly?

A: The Fed makes a rate cut and current mortgage interest rates rise. The current mortgage interest rate on 30 year fixed loans routinely inches up compared to rates before the cut. Consumers are expecting the opposite to happen and yet it rarely does. This opposite market reaction is pretty consistent over the last few cuts. A Fed rate cut doesn't automatically lower the longer term current mortgage interest rate and will do absolutely nothing for the folks sitting on recasting adjustable rate mortgages or mortgages on the verge of default. The interest rate of 15,20,30 year loans, like long term fixed rate mortgages, are based on the competing investment options like stocks. A Fed Funds rate cut signals the stock market with an "all is well" from the Fed. With stocks looking more attractive, investors will actually pull money out of the mortgage backed securities and bond market (markets typically used by investors when "all is NOT well") in favor of the stock market.

Is this the right time to refinance or buy a home – especially with the real estate market having hit one of its lowest of all lows in over a decade?

A: A powerful blast from lower mortgage interest rates has jump-started an opportunity to refinance, and many homeowners are racing to their lenders. You may be able to get a 30-year fixed rate well under 6%. During the week ending January 24, the rate fell to an average of 5.5% (plus 0.4% in fees and points), according to Freddie Mac. That's down from 6.7% in July 2007, and it's the lowest rate since March 2004. The better your credit score and the more equity you have in your home, the better the deal you will get. Most lenders won't make loans of more than 90% to 95% of the loan-to-value ratio except to borrowers with the very best credit scores. Some borrowers with fixed rates can benefit from refinancing, but

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spending and commercial borrowers will pay 0.75% less on lines of credit, equipment leases and other shorter term commercial loans. However, the decrease of 0.75% in short-term rates does not affect the rate that borrowers will pay on typical long-term fixed mortgages. As an example, the average 30-year rate in June 2004 was 6.21%. During that same time, Prime rate has been as low as 4% and as high as 8.25%. Although the day-to-day fluctuations in the market do affect what rate borrowers will get on a home mortgage, news reports of the Fed "dropping rates" don't provide a reliable indicator of what that rate will be.

Is this the right time to refinance or buy a home – especially with the real estate market having hit one of its lowest of all lows in over a decade?

A: The best indicator of whether this is the "right" time to refinance or buy a home has to do with the borrower's unique circumstances.

If you are in the market for a new home, this is an outstanding time to buy. During the past several years the demand for homes was so strong that builders had difficulty keeping pace and real estate brokers were presenting multiple offers for existing homes on the same day they were listed for sale. Those days are gone, probably for the next couple of decades. Inventory, on the other hand has returned and buyers have every conceivable option available to them. Prices are slightly down, depending on the area. The home of your dreams is most likely available, and if you are a strong, eligible buyer, you can often negotiate on your terms.

Whether a person should refinance or not depends on the existing loan, the borrower's needs, and his or her best guess plans for a future in the home. If the existing loan has a slightly higher rate, if it is an Adjustable Rate Mortgage (ARM), or if it has a balloon payment, it might be a good idea to refinance. Even if the loan has a low interest rate, a refinance might be an option to consider if you need cash from the equity. It is impossible to describe all possible scenarios, but if you are unsure whether a refinance is right for you, sit down with a qualified mortgage professional. During a short interview he or she can make recommendations based on your circumstances for a loan that is right for you.

What are the options all consumers must consider before refinancing or taking on a new mortgage and what are some of the most popular types of loans available?

A: In the past several months, some of the most popular types of mortgages have become scarce, or in some cases, have been eliminated altogether. Many of the stated income or no income verification loans and the "pay-option" ARMs have been affected. In any case, uncertainty in the market and low fixed-rate loans have made the standard, conventional loan the most popular choice in recent months.

Is it worth paying the closing cost to knock off a point or so on your mortgage?

A: It can be very worthwhile to pay closing costs, even to reduce the interest rate by less than a percentage point. This determination cannot be made without a detailed review of the borrower's individual circumstances. This is not a "one size fits all" question. To determine whether a refinance is right for you, sit down with a qualified mortgage professional.

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What is the impact on mortgage rates from the recent interest rate cuts?

A: The Federal Reserve is currently cutting the Fed Funds rate and other related short term bank rates. There is no correlation between these rates and the "mortgage rates". The mortgage rates that most people consider, are tied to long term rates that are generally pegged to the 10 Year Treasury Note. The current cuts are saving people money on their home equity lines and other loans tied to the Prime Rate which are common on commercial mortgages.

If the Fed is lowering the interest rate, why have the mortgage rates not dropped accordingly?

A: Mortgage rates are determined by the sum of 2 factors a) the rate on the 10 Year Treasury Note and b) the risk premium the market prices on mortgage debt. The 10 Year Note is priced based on auctions by the federal government. The pricing on these notes is driven by the supply and demand for US Treasury Notes. Given that the US is still relatively one of the safest places to keep money, there is still demand. The rates have come down to a certain extent. However, the risk premium the market is placing on mortgage debt has increased. Given the rise in defaults, foreclosures, and loose underwriting, there is perceived increase in risk. So while the treasury rate has decreased, the risk premium has increased.

Is this the right time to refinance or buy a home – especially with the real estate market having hit one of its lowest of all lows in over a decade?

A: The residential real estate market has hit a low. In our studies of the market, we have reached a floor that gains its support from the large bulk of stable homeowners and investors. It is a great time to buy because a) prices are terrific and b) rates are still near the all time lows.

What are the options all consumers must consider before refinancing or taking on a new mortgage?

A: It is important that consumers consider all the costs of ownership prior to purchasing. Everything from utilities, lawn & pool maintenance, association dues, property tax, insurance etc. must be considered. When comparing the rent vs. own options, it must be an apples to apples comparison and you must also have the ability to write a check when there is a major malfunction or damage to the home. When refinancing, it is important to think of the intention. If the intention is the need for cash out, then one should consider the options of a Home Equity Line or 2nd Mortgage. When its simply to reduce the rate, then one must look for substantial savings before spending closing costs or look for a No Closing Cost mortgage.

What are some of the most popular types of loans available?

A: The 30 Year Fixed and 15 Year Fixed are still the most popular and the most appropriate.

Is it worth paying the closing cost to knock off a point or so on your mortgage?

A: We recommend No Closing Cost mortgages when refinancing. You can lower your interest rate without paying any costs. Its a win-win situation. It is not the lowest rate such as when you pay closing costs. However, if rates go lower, you can refinance again with no closing costs and obtain a further lower rate. You have nothing to lose and everything to gain.